

## *Retiring South Carolina's Public Workforce For Life*

# Director's Briefing Paper on S1124 and H4673

*Senate Bill 1124 and House Bill 4673, introduced in the South Carolina General Assembly in February 2008, reflect the recommendations of the State Treasurer's COLA Task Force relative to the provision of and the funding of cost-of-living adjustments for South Carolina's retired public workforce.*

In 2005, as members of the South Carolina General Assembly, you formed committees in both the House and the Senate and charged them with evaluating cost-of-living adjustments (COLAs), for South Carolina's retired public workforce. The state retirement system could no longer fund COLAs out of the trust fund unless changes were made.

You heard testimony from the South Carolina Retirement Systems, investment consultant professionals, the Retirement Systems' actuary, Retirement Systems' members, and others. At issue was whether COLAs should be continued and if COLAs were to be continued, what level of increase and what type of funding source should be provided.

***There are limited ways to impact the funding of the Retirement Systems: increase contributions; reduce benefits; and generate a higher return on assets.***

As you know, there are limited ways to impact the funding of the Retirement Systems:

1. Increase employee contributions;
2. Increase employer contributions;
3. Reduce benefits; and
4. Generate a higher return on assets.

After thorough analysis of each of these funding mechanisms, you adopted Senate Bill 618 which became Act 153. This bill provided for a 1 percent guaranteed COLA for eligible South Carolina Retirement System (SCRS) retirees, removed the post retirement earnings limit for and provided active group life benefits to working SCRS and Police Officers Retirement System (PORS) members, and made changes to the Teacher and Employee Retention Incentive (TERI) program that removed the annual leave payout at the beginning of TERI participation.

Funding was provided by a 1 percent increase in the SCRS employer contribution rate, a .5 percent increase in the SCRS employee contribution rate, and a require-

ment that all working SCRS and PORS retirees, including TERI participants, contribute at the same rate as active employees.

Through Act 153, you also made significant changes to the Retirement Systems' investment structure by creating the South Carolina Retirement System Investment Commission (RSIC) and transferring to them complete authority and responsibility for investing the entire pension fund. You created the position of chief investment officer and provided stringent criteria for selection, including exemption from state salary limitations.

You removed the statutory constraints on allowable investments, replacing them with a general cap of 70 percent equity instruments, and

you adopted a separate bill placing a referendum on the ballot to remove the constitutional restrictions that prohibited the Retirement Systems from fully diversifying its portfolio to maximize potential returns.

South Carolina voters approved the constitutional referendum in November 2006 and you ratified the referendum in February 2007. Thus, for the first time in South Carolina's history, the Retirement Systems was, and still is, in a position to invest the state pension fund comparably to plans in other states.

During your consideration of S618, the Retirement Systems' actuary and investment consultants provided testimony on the returns for the Systems' portfolio compared to its peers across the country. While the average assumed rate of return for plans in other states was reported to be approximately 8 percent, the Retirement Systems' assumption was and continues to be set at 7.25 percent.

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As a result of your extensive consideration of the actions that could be taken to move the Systems' expected returns closer to those of its peers, you positioned the Systems' portfolio for a possible change in its assumed rate of return.

You should know that through your passage of Act 153, you enabled the investment commission and the chief investment officer to make significant progress in more appropriately positioning the Systems' portfolio.

While historically the Retirement Systems has performed in the bottom 10 percent of public funds, the most recent reports indicate the Systems is now performing in the top 25 percent.

I would like to digress long enough to extend my personal gratitude and express the gratitude of the 300,000 plus members of the Retirement Systems for the efforts of the investment commission and the chief investment officer.

While the impact of these changes has been considerable, other steps are being taken to further secure the funding of the Retirement Systems and protect retiree COLAs.

The State Treasurer's COLA Task Force was charged last year with reviewing the pension plans' COLA provisions. Members of the task force included legislators, businessmen, retiree organization representatives, former interim State Treasurer Kenneth Wingate, Comptroller General Richard Eckstrom, and others.

With one member abstaining, the remaining members of the task force voted in the affirmative to make the following recommendations to the Governor, the General Assembly, and the State Budget and Control Board:

1. Increase the assumed rate of investment return to 8 percent;
2. Increase the annual guaranteed COLA from the current 1 percent to the increase in the Consumer Price Index (CPI) up to 2 percent;
3. Authorize additional ad hoc COLAs up to 2 percent provided all of the following are met:
  - a. The amortization period for the prior year unfunded liability is at 25 years or below; and
  - b. The estimated funded ratio in the current year, after the grant of an additional ad hoc COLA, does not decrease; and
  - c. The estimated amortization period in the current year, after granting the additional ad hoc COLA, is still reduced by at least one year; and
  - d. No increased employer contribution is required to support the grant of the additional ad hoc COLA.

*While the impact of these changes has been considerable, other steps are being taken to further secure the funding of the Retirement Systems and protect retiree COLAs.*

The Budget and Control Board, acting as trustees for the Retirement Systems, is responsible for setting the actuarial assumed rate of return. The remaining provisions are incorporated into S1124/H4673. Additionally, the legislation makes the COLA provisions consistent across SCRS, PORS, and the General Assembly Retirement System (GARS).

*This document was prepared by the South Carolina Retirement Systems, a division of the State Budget and Control Board.*

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